

STAT

Page Denied

STAT

PROCESS OF EXCHANGING GOODS BETWEEN THE USSR
AND THE PEOPLE'S DEMOCRACIES

[Comment: This report summarizes a review of the Russian book by A. S. Korolenko, entitled Torgovyye Dogovory i Soglasheniya SSSR s Inostrannymi Gosudarstvami (Trade Treaties and Agreements of the USSR With Foreign Nations), published in 1953 by Vneshtorgizdat, Moscow. The book review was published in Zahranicni obchod (Foreign Trade), No 7-8, July 1954, organ of the Czechoslovak Ministry of Foreign Trade.]

Common to all trade agreements between the USSR and the People's Democracies is the pledge by the governments of the nations signing the agreements to ensure the delivery of the goods according to the provisions of the agreement. The governments immediately authorize the import and export of the goods specified in the agreements. Foreign trade agencies of each government ensure smooth traffic of goods and control the timely fulfillment of orders. Periodic evaluations are made with this end in mind. If the trade operation is not proceeding smoothly, the governments take steps to remove the obstacles. Quarterly plans prepared by the foreign trade agencies of each government are another measure designed to ensure prompt fulfillment of the obligations of the agreement.

The People's Democracies strictly observe the trade agreement obligations. This is important to the planning of each nation's development. Each nation can be certain that the imports and exports necessary to its development will be realized.

Payments for goods delivered under trade agreements, as well as payments for expenses connected with the exchange of goods, are made through the State Bank USSR and the central bank of the other party to the agreement. The banks are required to open special mutual accounts, and to inform each other immediately of any claims accepted for payment from the account. Whenever the appropriate bank receives such information, it immediately makes payments to the seller.

The payments system existing between the USSR and the People's Democracies is based on the principle that both nations involved in the transactions are equal. This eliminates the necessity of using foreign monetary standards. All payments are made in rubles. Even in trade between two People's Democracies, rubles often serve as the standard. When rubles are used as the standard of value, misunderstandings can be avoided if the value of the goods is expressed in the agreement in terms of rubles, as well as in the currency of the other nation involved in the agreement.

In addition to payments for goods and costs connected with the exchange of goods, other payments may be made through the clearing system even though they are not related to the transaction. When trade between the USSR and one of the People's Democracies is involved, the State Bank USSR and the central bank of the People's Democracy shall decide what payments, other than those related to the trade, may be transacted through the clearing house accounts.

In most trade agreements between the USSR and capitalist nations, the creditor nation is entitled to demand payment of the balance which exceeds the limits provided in the agreement. No such provisions are found in agreements between the USSR and the People's Democracies. In trade between the USSR and the People's Democracies, any balance at the end of the year are settled in goods and not in cash. This method of settlement is also widely used in trade among the People's Democracies.

STAT

Most agreements between the People's Democracies which contain provisions for clearing payments are bilateral agreements, but the USSR has even applied the clearing system to trilateral agreements. To maintain the proper balance of trade, the agreements must specify not only the type of goods to be exchanged, but also the quantity and perhaps the value of the goods. When the quantity is stated, all payments to be made through the clearing house system must be considered even though they may not be related to the actual transaction.

If at the end of a year, the value of goods and services provided by one nation exceeds the value of the goods and services provided by the other nation, the debtor nation is allowed a 3-month period in which to compensate for the difference. This is done either in additional goods or in cash, usually goods.

Trade between the USSR and the People's Democracies is handled through the foreign trade enterprises of the nations involved. In the USSR, these enterprises are all-Union associations whose legal status is determined by statutes and by special legislation. All-Union associations for foreign trade are independent national economic organizations in the form of corporations and operate according to the principles of "khozraschet" [Soviet cost accounting system]. Each association is assigned a list of goods with which it is permitted to carry on imports and exports. In the People's Democracies foreign trade is controlled by the state through the minister of Foreign Trade as provided in the constitution of each state. Imports and exports are carried on directly by the national foreign trade enterprises (in China, this is called the State Foreign Trade Company). The legal status of these enterprises is determined by special laws. The enterprises are corporations, carry on trade according to a prescribed list, assume obligations, and perform other functions specified by law.

Whenever a trade agreement between nations is signed, the carrying out of the terms of the agreement is turned over to the foreign trade enterprises. Soviet foreign trade associations and the foreign trade enterprises of the other nations draw up contracts in which all questions related to the delivery of goods named in the appropriate lists are resolved. These contracts include such items as specifications, variety, volume, prices, terms of delivery, and terms of payments.

Agreements between the Ministers of Foreign Trade of the USSR and of the People's Democracies are also signed, to ensure the smooth operation of trade. These are agreements regarding the "General Conditions of Delivery" and are similar in all the People's Democracies. Minor variations may arise from such factors as geographic differences or the delivery of special goods. The equality of the parties to a trade agreement is evident from the fact that the same general conditions of delivery apply to the delivery of goods from the USSR to the People's Democracies, as well as in reverse, and are legal under the laws of both nations. Whenever it is deemed necessary, foreign trade enterprises are at liberty to include in their contracts conditions which are at variance with the General Conditions of Delivery. The General Conditions of Delivery are not limited to any specific period, and may be legally rescinded by either party.

All contracts, enclosures and changes thereto, and other documents related to the trade agreement must be legibly prepared and signed by appropriate officials. In the USSR, agreements drawn up by foreign trade associations in Moscow must be signed by two persons, one of whom must be the chairman of the agency or his representative, and the other, a person specially authorized by the chairman of the agency to sign foreign trade contracts. If a contract is signed outside of Moscow, two persons authorized by the chairman of the agency must sign.

STAT

Delivery by rail is made without cost to the importer as far as the boundary of the exporting nation. Marine transportation is made according to FOB or CIF terms. This is specified in the contract. In rail transportation, all transportation expenses from the boundary of the exporting nations to the shipment's destination must be borne by the importing nation. This includes transfer of cargo and switching of railroad cars. Under FOB delivery, the exporter is responsible for getting the cargo to the dock and loading it on the ship's deck. As soon as the cargo is unloaded from the exporter's railroad car onto the car of the importer, the importer assumes possession, and risk of damage or claims. The same applies when the cargo is placed on the deck under FOB terms, or when the consignment and insurance is turned over to the importer under CIF terms.

Deliveries of goods are seldom specified for a certain period of the year. Usually the contract specifies a certain amount of goods to be delivered in the course of the entire year. Rail delivery invoices must bear the date stamp of the boundary railway station of the purchasing nation. Marine delivery invoices must bear the date on the consignment sheet. Delivery dates specified in the contract must be strictly adhered to. Only extreme circumstances can absolve the exporter for failure to make timely delivery.

Shortage claims made by the importer must be based on the amounts stated on the invoice or on the consignment sheet. Such claims are then directed to the railroad administration of the importing nation or to the steamship line. The fact that the shipment meets the quality requirements specified in the contract must be verified by such document as was agreed upon in the contract.

The importer and exporter nations must keep one another informed as to progress being made on goods to be delivered. In cases where contracts specify that goods will be tested prior to being dispatched, the exporter is obligated to perform these tests prior to the stated date of delivery. Such tests are conducted either according to conditions agreed upon, or in the absence of such conditions, according to conditions applicable to the appropriate industrial branch of the exporter nation. If the buyer orders series produced goods, or buys from storage, only items selected at random are tested, unless otherwise specified in the contract.

Tests are conducted either in the presence of representatives of the importer, or even in their absence. The question of the presence of representatives of the importer is settled in the contract. If the representatives of the importer are present at the test and they find any faults, the exporter is obligated to remove these faults in the shortest possible time. If the goods satisfy the conditions of the contract and no faults are found, the representative of the importer authorizes the exporter to ship the goods. The authority for shipment of goods does not absolve the exporter of his guarantee as to the quality of the goods. If the test is conducted in the absence of representatives of the importer, or if they fail to arrive on time, even though they have been informed on the test date, the exporter is obligated to prepare a protocol describing the details and results of the test. The protocol must then be sent to the importer. The protocol must contain verification that the goods satisfy the conditions of the contract, and that the goods are not faulty.

STAT

During the warranty period the exporter guarantees the specifications and quality of the products delivered. Precision machined goods and optical goods are guaranteed for a period of 9 months from the date of delivery. Series produced are guaranteed for 12 months after installation, or for a maximum of 15 months after delivery. Large machines and installations are guaranteed for 12 months from the beginning of their operations, or for a maximum of 24 months from the date of delivery. Warranty periods for other products are specified in the contracts. If in the course of the warranty period a product fails to comply with specifications or is found to be faulty, the exporter is responsible to correct the faults immediately or to replace the faulty goods. In such cases the guarantee period is extended to cover the replacements. Replacement goods are transported to the boundary of the importing nation at the expense of the exporter. If the exporter fails to correct the faults within a reasonable period established by the importer, the importer is entitled to correct them at the expense of the exporter.

Occasionally, claims arise in regard to quality and quantity of goods. Claims regarding quantity must be filed not later than 3 months after the date of delivery. Claims regarding quality must be made within 6 months of the delivery date. In regard to guaranteed goods, claims must be filed within 30 days after the expiration of the warranty period. Late claims may be filed with an arbitration board within a prescribed period. The importer is entitled to request the exporter either to reduce the cost of or replace the goods found to be of inferior quality. Complaints regarding one shipment do not entitle the importer to refuse to accept subsequent shipments of the contracted goods.

As stated previously, payments between the foreign trade associations of the USSR and foreign trade enterprises of the People's Democracies are handled through the State Bank USSR and the central bank of the People's Democracy concerned. Mutual confidence between the nations accounts for the fact that the "inkasni" [authorization of payment] form of payment is the most widely used. Letters of credit are rarely used, usually only in cases of large deliveries such as total deliveries of ore or coal.

To ensure prompt payments and to prevent errors, the General Conditions of Delivery specify definite terms for the accomplishment of payments and provide for appropriate sanctions in cases of failure to comply with these terms.

In cases of missed payments, the importer is required to pay a penalty of one percent above the value of goods received for every day that payment is delayed. If the delay amounts to more than 10 days, the exporter may withhold further shipments until the debt is settled.

The General Conditions of Delivery contain a special section dealing with penalties for delayed deliveries. If deliveries are delayed for more than 30 days, the exporter is penalized. The penalty is discounted from the price of the delayed goods. For every day of delay in excess of 30 days, the following penalties are inflicted: the first month, .05 percent; second month, .08 percent; and additional months, 0.12 percent. Total penalties can never exceed 8 percent of the value of the delivered goods. In delays of over 4 months and in delays of over 6 months in cases of specially manufactured goods, the buyer is authorized to cancel the contract without arbitration. In such cases, however, he becomes ineligible to file claims against the exporter for nonfulfillment of the contract, except for delayed payments. The exporter must refund any advanced payments plus 4 percent interest.

STAT

The acts of a higher power may relieve either party to an agreement from having to fulfill its obligations. When circumstances arise which make it impossible for a party to fulfill its obligations, that party must promptly notify the other party of the fact. When such circumstances have passed, the other party must again be notified. Circumstances exempting the exporter from fulfillment of his part of the contract are not specified in the General Conditions of Delivery.

Even though almost all claims arising from trade between foreign trade agencies of the USSR and the People's Democracies are settled by mutual agreement, the General Conditions of Delivery contain regulations pertaining to the settlement of disputes which may arise in regard to the contract. Such disputes do not come under the jurisdiction of the law, but are matters for arbitration. General Conditions of Delivery signed by the People's Democracies of China, Poland, and Czechoslovakia contain these regulations pertaining to the site of arbitration: (a) If claims are filed against a Soviet agency, the arbitration will be conducted in Moscow, before and by the rules of the Foreign Trade Arbitration Commission of the All-Union Chamber of Commerce. (b) If claims are filed against the People's Democracy of China, Poland, or Czechoslovakia, arbitration will be held in the capital city of the People's Democracy or some other city. The arbitration will be conducted according to the arbitration laws which are valid in the nation in question. In Poland arbitration is conducted before the Arbitration Board in Warsaw. In Czechoslovakia the arbitration is conducted before the Arbitration Court in Prague. Since the other People's Democracies have no arbitration agencies, the General Conditions of Delivery provide that any disputes which may arise shall be arbitrated by the Foreign Trade Arbitration Commission of the All-Union Chamber of Commerce in Moscow. As soon as arbitration agencies are created in these nations, the same principles of arbitration will apply as in the cases of China, Poland, and Czechoslovakia.

- E N D -